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PRESENTATION

Operator

Good day and thank you for standing by. Welcome to the Taboola second-quarter 2021 earnings conference call. (Operator Instructions). Please be advised that today's conference is being recorded. (Operator Instructions). I would now like to hand the conference over to Jennifer Horsley, Head of Investor Relations. Please go ahead.

Jennifer Horsley - *Taboola.com Ltd. - Head of IR*

Thank you and good morning, everyone. And welcome to Taboola's second-quarter earnings conference call. I am here with Adam Singolda, our Founder and CEO, and Steve Walker, our CFO. We issued our Q2 earnings press release yesterday after market and it is available, along with our Q2 shareholder letter, in the Investors section of our website. Now I'll quickly cover the Safe Harbor.

Certain statements today, including our expectations for future periods, are forward-looking statements. They are not facts and are subject to material risks and uncertainties described in our SEC filings. These statements are based on currently available information and we undertake no duty to update them except as required by law. Today's discussion is also subject to the forward-looking statement limitations in the earnings press release.

Future events could differ materially and adversely from those anticipated. During this call we will use terms defined in the earnings release and refer to non-GAAP financial measures. For definitions and reconciliations to GAAP, please refer to the non-GAAP tables in the earnings release posted on our website. With that I'll turn the call over to Adam.

Adam Singolda - *Taboola.com Ltd. - Founder & CEO*

Thank you, Jen, good morning, everyone, and thank you all for joining us today. This is our very first earnings call after going public and we're excited to share our results with you and update you on our business.

Before I get to our second quarter I want to take a moment to remind you and everyone why Taboola exists, our vision and where we fit. Taboola powers recommendations for the open web, helping people discover things they may love but never knew existed. You've all seen us before. If you have visited sites you love like CNBC, NBC News, the Independent in the UK or Sankei in Japan, you will discover things you might like to read powered by Taboola.

The open web, as many of you know, is the term for all of the websites and publishers out there that are not Facebook, Amazon, Google, Apple or the like. The open web is really important, even essential, because it is free and diverse and it doesn't belong to anyone giant company; it belongs to all of us, everyone. Think about every website you love, every game, app on a mobile device or app on your connected TV that lives outside of the walled garden, that is where Taboola fits.

Taboola has established long-term partnerships with some of the top publishers and digital properties in the world. We have a proprietary deep learning recommendation engine that is able to infer what a user might be interested in based on context and not third-party cooky. A knowledge of what other users have liked in a similar situation.

Through our publisher partners we reach 0.5 billion people every single day and we invest $100 million a year in R&D to provide our partners with a platform and technology they need to drive revenue engagement and audience. The strength of our platform also has attracted more than 13,000 advertisers who work directly with Taboola to reach consumers in a brand safe environment.

Our size matters as, in our business, the more scale you have yield gets better, which gives you advantages in the marketplace, creating more predictable and profitable growth that allows us to invest even more in our core and outside of core.

Turning now to the quarter, these last 90 days have been very eventful and in some ways monumental. Just before going public we shared with the investment community that we beat our first-quarter expectations and we raised our guidance for the rest of the year. On June 30 we went public as TBLA on NASDAQ. And today we share that we delivered strong second-quarter results that, again, exceeded our guidance across the board.

And several weeks ago we announced our most significant acquisition to-date in our agreement to acquire Connexity for $800 million, bringing e-commerce to the open web in a big, big way. I'm really excited about the acquisition. The market is excited. Following the announcement I've received many messages from the publisher community expressing interest in expanding their work with us to launch shopping areas on their site and to bring e-commerce to their editorial pages. I will share a lot more of this later.

But first let me start with our listing milestones. It was June 30, Taboola went public. What a moment in time it was for all of us. 1,400 Taboolars all around the world. Taboola is now a public company and we are honored to have great conversations and the support of so many new investors large and small.

As we embark on our public journey, I can assure you that we are focused on executing on our strategy, winning in the marketplace and, most importantly, delivering on both short-term and long-term commitments for the benefits of not only ourselves but now also for our public new investors who chose Taboola and believe what we believe.

I enjoy being a public company. I love the transparency it carries with it, the conversation, and I enjoy building the trust with our new investors who joined our journey. You see, I always believed in transparency, diversity and good quality conversations. Nobody cares about who does what first, but rather only who does it best. And we want to be always the best.

We want to have great conversations about the business and we believe that's going to make us better internally and with the investment community. This is why I hope the letter I write quarterly is helpful in giving you more access to our vision, strategy, execution and creating that bridge to what Taboola's leadership is thinking.

With that in mind, I would like to share with you the progress we've made in the second quarter. We are winning in the market and we're seeing great results, with revenue growth of 23% over the same quarter last year, ex-TAC gross profit growth of 18% and, importantly, with strong adjusted EBITDA of nearly $41 million. All of those results exceeded our guidance and Steve Walker, our CFO, will take you through the financial drivers in more detail in a bit, while I'm going to talk to you about the business.

I speak frequently about how Taboola is growing across three multibillion-dollar opportunity areas -- our core, Recommend Anywhere and Recommend Anything. Starting with the core, we have a strong core business where we participate in a $60 billion open web market and this is our foundation -- a business with a moat built on 14 years of technology and algorithm innovation, direct publisher and direct advertiser partnerships.

We are a business that is not reliant on third-party cookies and which instead leverages contextual signals to deliver relevant recommendations, a business where we interact with 0.5 billion people a day, which is more than Twitter and Snap combined. And this provides us tremendous scale and feeds our flywheel resulting in us winning more publisher partners.

You see, when we launch a new publisher we reach more people, we get more data, more advertisers participate in our marketplace, which helps us drive our yield up. And when our yield gets better we become more competitive, which means more predictable growth ahead of us. It also helps that our gross revenues are over $1 billion, because scale is really important in our business and industry, driving further that competitive advantage I'm speaking about.

To demonstrate some of that momentum, during the second quarter within our core business we one new partnerships with publishers such as the BBC, Hearst, SheMedia and others. For example, as part of our new partnership with BBC Global, we became their exclusive content recommendation provider for years to come. This is a competitive win where we were able to demonstrate a comprehensive understanding of BBC requirements driving growth to the three KPIs they care about the most -- revenue, engagement and audience.

This is a true royal win for Taboola. We are doing all of this while keeping users at the heart of what we do -- focusing on our user experience, integrity and quality. It makes me proud that companies like the BBC choose Taboola. And it justifies all the investment we are making an AI, technology and always being more than just money to our publisher partners, as well as investing so much in policies around areas like privacy, preventing misinformation. Taboola keeps the open web safe for all of us.

We are also growing our teams fast and we are building an inclusive and diverse workplace. It isn't just the right thing to do as society; we believe multiple voices can drive better results. Like I said earlier, our culture is about transparency and collaboration, and with more diversity we believe we can execute even better.

As we look into the third quarter and the rest of 2021, our DEI projects are a focus. We have allocated $1.5 million for DEI activities for 2021 with $0.5 million already implemented in the first quarter Recommend Her campaign, which provides free advertising for women-owned businesses. So, as you can see all around, we are seeing good momentum winning in our core business. And this is important as our core business provides the scale, capabilities and permission to pursue our anywhere and anything growth initiatives.

With our second growth area, Recommend Anywhere strategy, we are continuing our expansion to recommend wherever people might be. Over time we will consider becoming the recommendation engine on devices like connected TV or automobiles and, in the meantime, we are seeing good progress integrating our recommendations on Android devices.

For example, Taboola News, our Apple-like product, has continued to scale with two major partnerships, a long-term partnership with Slide, a leading mobile platform that drives engagement and monetization for mobile carriers, OEMs and publishers, or Samsung in Brazil selected Taboola News as our partner to integrate relevant content from Taboola's premium publishers on mobile phone and other user touch points.

Over time I envision Taboola recommending things to people wherever they may be. We only have 24 hours a day and that will never change. Human beings will be making some of their most important decisions in life using process recommendation engines and that's where we fit.

Now moving to our third growth engine, Recommending Anything strategy is a way for us to diversify what is it that Taboola recommends. In this area we've seen great growth in the second quarter, where we're winning premium demand on premium new placements. We launched new placements for our recommendations in the middle of the page as well as homepages and section fronts, and brands and agencies really like it because it gives them bigger, more visible and premium placements they can participate in.

We have a significant advantage here as we already power both editorial and paid recommendations for so many of the most amazing publishers in the world. This allows us to suggest expanding our recommendations in other places and replace traditional advertising units with a higher user value and higher revenue opportunities, a true 1 plus 1 equals 3.

Our biggest step forward on our strategy of recommending anything is by far our pending acquisition of Connexity, focusing on bringing product and e-commerce recommendations to the open web. I'm so proud of that moment right now, bringing together Connexity and Taboola.

Many of you may have heard me already heard me talking speaking about e-commerce as the future of the open web, the future of the Internet, the future of Taboola. But I would like to spend some time sharing with you more about the Connexity business and why this is such a great fit and strong strategic opportunity for Taboola.

Connexity is already one of the largest e-commerce media platforms on the open web with over 1 million monthly transactions supported by direct relationships with over 1,600 merchants such as Walmart, Wayfair, Skechers, Macy's, eBay and Auto. Connexity reaches more than 100 million unique shoppers per month. They have direct relationships with premium publishers such as Condé Nast, Door Dash, Hearst, VOX Media, Meredith and News Corp Australia.

A bit about Connexity's business. Connexity is a B2B company serving merchants and advertisers on one side and enabling publishers as partners on the other. 90% of their revenue comes from merchants they have a direct relationship with. Most of it is paid through CPC and some of it is paid through CPA. They don't rely on third-party cookies and this is really incredible.

Their business is very aligned with Taboola's strategy, which is about working directly with both advertisers and publishers serving high-quality advertising experiences that do not depend on cookies.

Connexity supports publishers in two ways. First, their offering helped to bring product recommendations to sites we all love in a familiar native format where product listings are seamlessly embedded alongside the publisher's editorial content.

Second, Connexity is enabling clients to launch their own shopping sections. Think Better Homes & Gardens' shopping site offered by Meredith. Or how much you trust products recommended when [Wired] recommends them. Connexity has also successfully built in a way to enable advertisers to expand their reach beyond their publisher partners. Similar to Facebook audience network, FAN, but powered by Connexity and in the e-commerce category.

For example, a merchant working with Connexity might be recommended on Meredith or Hearst, but might also be serviced on Bing, Yahoo Google or even Instagram where influencers create content. This makes up approximately 25% of Connexity's business and it provides a great opportunity for Connexity and its merchants to find users wherever they may be.

Connexity is a great fit for our business. We believe that the future of the open web is e-commerce, bringing merchants together with trusted publishers connecting customers with products they may like powered by Taboola. By combining our organizations, cultures, massive data, reach of 500 million daily active users and direct access to publishers, advertisers and merchants, we're taking a huge step forward to our vision as well as expanding our market opportunity.

We are excited to have Connexity join us and expand our TAM where e-commerce is already $35 billion in the US alone, as well as expanding internationally where Taboola operates. After this acquisition Taboola will now be powering millions of e-commerce recommendations to millions of people across the open web every single day. I am convinced we can bring the power of commerce to every site or app on the free Internet.

Imagine reading an article about Star Wars Lego and, instead of having to search or buy for that set, products like Lego Millennium Falcon, Yoda or R2-D2 will be surfaced alongside that piece of content for users to consider buying.

We can't wait to call our partners and clients and bring e-commerce to them. The synergies are very clear and include: one, driving yield growth by bringing Connexity merchants to Taboola's existing relationships with publishers. Business or publishers will make more and we will become even more competitive.

The second synergy is selling into 9,000 publishers of Taboola the existing Connexity publisher products, such as shopping sections and products alongside editorial content. Connexity is also heavily weighted in the US and we see great opportunity bringing Connexity global by leveraging Taboola's worldwide presence. And lastly, to create super data sets, to drive further yield growth to both Connexity and Taboola's partner.

In Taboola's execution obsessed fashion, we have teams in place building out the plans on all of these fronts so that we can hit the ground running once the acquisition closes, which we expect will happen by the end of the third quarter.

As I finish my opening remarks, let me summarize saying we are very excited to be a public company and speaking to all of you. We beat our expectations in Q2 and we're raising our guidance this year. This also gives us confidence in raising our expectation for growth in 2022. We expect to grow over 30% on a non-pro forma basis.

Additionally, we previously told you it's expected that Taboola's standalone app stack profits will grow 16% in 2022. With the completion of the Connexity acquisition we are raising our expectation for next year projecting that we will grow ex that gross profit faster at 17% on a pro forma basis, despite being a much larger base.

Beyond it all, I can tell you that together with Connexity we will be at the forefront of powering recommendations for the open web, as well as e-commerce in the open web as an alternative to walled garden. Amazon has millions of merchants, but merchants mainly have Amazon. That changes now. I would now like to pass it over to Steve to take you through in more detail our financial performance and guidance.

Stephen Walker - *Taboola.com Ltd. - CFO*

Thanks, Adam, and good morning, everyone. As Adam indicated, we had a very strong first half of the year and this is reflected in our financial performance. If you read our earnings release, you notice that we beat our Q2 guidance on all measures and we are raising our guidance going forward. But before I get into specific numbers, let me take a step back and remind everyone of how we look at and measure our business.

We are focused on achieving profitable growth. The way we measure our performance against this goal is by looking at two measures. To measure growth we look at ex-TAC gross profit growth rates. And just as a reminder, ex-TAC is what we keep from our revenue after we pay our publishers. To measure profitability we look at adjusted EBITDA margin.

Adjusted EBITDA margin is our adjusted EBITDA divided by our ex-TAC gross profit. Just as SaaS businesses have a rule of 40 where they always want their growth rate plus their profit margin to exceed 40%, we too want the sum of our ex-TAC growth rate and our adjusted EBITDA margin to exceed 40%. So now let's get back to the numbers.

In terms of Q2 performance, revenue was up 23%, ex-TAC gross profit was up 18% and adjusted EBITDA was up 17% versus Q2 of last year. This strong performance was driven by the good business momentum that Adam mentioned previously. We are winning new business, seeing good demand in our agency and brand offering which we call Taboola high impact placements, and we are maintaining strong yield overall.

Of the Q2 gross revenue growth of $61 million, $23 million came from new digital property partners and $38 million came from growth of our existing digital property partners. That translates into net dollar retention, or NDR, of 114% and primarily reflects strong improvement in our yield. So, very good overall net dollar retention and a continuation of the positive momentum we saw building through the back half of 2020.

Our ex-TAC gross profit was up $18 million or 18% year-over-year. It benefited from the growth in both new and existing digital property partners as well as from the continued flywheel effect in our business that drives improvements in yield, and which helps us move from paying some publishers on minimum guarantees to paying on revenue share over time. These gains year-over-year were partially offset by the withholding in 2020 of $10 million in guaranteed TAC payments to publishers that were subsequently paid back in the fourth quarter of 2020.

Turning to expenses I would note three unusual items. First, $76 million of the year-over-year increase in operating expenses was due to share based compensation triggered primarily from going public. Excluding share-based compensation, operating expenses were up $11.8 million or 18.5% year-over-year.

Second, I would note that research and development expenses were up $0.2 million year-over-year. We increased our investment in R&D-related headcount, but that was offset by lower depreciation related to the timing of new server investments.

To explain that, in 2020 as we entered a recession we froze new server purchases which reduced depreciation last year. But as we discussed previously, this year we invested an extra $14.1 million in servers, even above our normal investments, to support our business. This was a growth initiative to see if we could drive further yield improvements.

Finally, I would note that G&A was higher by $8 million year-over-year, which was driven by public company expenses and a partial return to more normal operations following the COVID pandemic. The strong revenue performance flowed through to profits and resulted in adjusted EBITDA of $40.8 million, up $5.9 million year-over-year, and a ratio of adjusted EBITDA to ex-TAC gross profit of 34.9%, both of which were above our guidance.

It is worth noting that we had net loss of $61.4 million, which was $74.3 million lower year-over-year. This was driven by higher share-based compensation triggered by going public, as we talked about previously.

Given the share-based compensation driven loss and an abnormal share count coming from our end-of-quarter public listing, GAAP earnings per share is not particularly meaningful. I did want to mention though that, for future modeling purposes, we estimate the fully diluted shares outstanding at the beginning of Q3 to be approximately 256 million shares.

Q2 produced operating cash flow of $23.1 million and free cash flow of $6.9 million, which included the server investments that I referenced earlier. We ended the quarter with $585 million in cash and cash equivalents with approximately $350 million coming from our public offering.

Following this strong performance in Q2, which was on the back of a strong Q1, we are now comfortable increasing our standalone expectations for Q3 as well as our full-year guidance. We are now projecting that 2021 full year ex-TAC gross profit will be $468 million to $472 million, which represents growth of 22% to 23% versus 2020. That's an increase from our previous guidance which was 19% to 22% growth.

We are expecting 2021 full-year adjusted EBITDA to be $150 million to $153 million, which translates into growth of 41% to 44% versus 2020. It's also worth noting that this demonstrates a very healthy adjusted EBITDA margin, meaning adjusted EBITDA divided by our ex-TAC gross profit of over 30%. Per my previous comments about always seeking to beat the rule of 40, our growth rate of over 20% and our adjusted EBITDA margin of over 30% well exceeds that goal.

And one very important note, all of these numbers are excluding our pending acquisition of Connexity, which is expected to close in the third quarter. Speaking of Connexity and looking forward to 2022, we expect to grow ex-TAC gross profit next year by 30% on an as reported or non-pro forma basis. This assumes we have one quarter of Connexity results in our financials in 2021. If we close sooner that would obviously change that estimate.

In terms of pro forma growth rates for 2022, previously we had set expectations that Taboola would grow in the mid-teens as a standalone. In fact, we had projected 15% in the investor presentation we used for our roadshow. With the completion of the Connexity acquisition, we are now comfortable raising our expectations for next year, projecting that we will grow ex-TAC gross profit at a faster rate of over 17% on a pro forma basis despite the much larger base.

I also want to update you on the pipe resale registration we filed on July 13. Due to the significance of our pending acquisition of Connexity, we need to put additional information in the pipe registration before it goes affective. We are working hard on that and expect the revised registration to be ready by early September and we expect it to go effective by mid-September.

Let me just wrap up by saying that I'm very optimistic about the future of the business. We have a great team and we are laser focused on continuing to deliver predictable, profitable growth over the long run. We are proud of our track record of performance which I think demonstrates our ability to execute. Our track record of success is also aided by a very strong business foundation that lends itself to consistent profitable growth.

We have long-term exclusive agreements with incredible publishers, we have a large base of advertisers, 90% of whom work with us directly and even allow our AI technology called Smart Bid to optimize on their behalf. We have a business that's not reliant on third-party cookies but rather uses contextual signals for targeting. And perhaps most importantly, we have scale. And in our industry scale matters because it drives a network effect that leads to higher yields which is a competitive advantage that drives higher margins.

Finally, I'm optimistic because Connexity adds to all of these strengths. We are adding a large network of new publishers, 1600-plus direct advertising relationships with great brand name merchants, new forms of data that will help us enhance our yield, and importantly, more scale that will further drive the flywheel that is our competitive advantage. So, we're very excited about the future with Connexity. And on that note, let's open this up for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). Andrew Boone, JMP securities.

Andrew Boone - *JMP Securities - Analyst*

Hi, guys. Thanks so much for taking the question. One on guidance, please, and then we can go to anything. On 2022 we're looking at 11% 2021 revenue -- GAAP revenue growth. So, as we think about 2022 and the 17% you just outlined, can you help us understand the underlying drivers as we think about 2022? Do we expect revenue to reaccelerate or do take rates continue to expand?

And then on high-impact placements, I think Steve mentioned success there. Can you talk about the potential with brands and just update us on your progress with video? Thanks so much.

Stephen Walker - *Taboola.com Ltd. - CFO*

Thanks, good questions. So, this is Steve Walker, CFO. So, I will answer the first one about expectations for 2022. So, we would expect that typically our gross revenue should grow at a comparable rate to our ex-TAC, just slightly slower, because we do expect some margin expansion as we go forward. So, we haven't given specific guidance on it, but I would say it will be -- the gross revenue growth rate will be much closer to that 17% than it has been this year. So, I think that's -- we expect it to kind of be in line with that. And I'll let Adam answer the question about high-impact placements and brands.

Adam Singolda - *Taboola.com Ltd. - Founder & CEO*

Andrew, good morning and thanks for the questions. So, I already said some in my letter, we're seeing great momentum and feedback from premium advertisers, specifically agencies and brands, with regards to a high-impact placement strategy. Let me just quickly explain what that is.

So, right now, and the way I started the Company was to provide editorial recommendations alongside paid recommendations primarily at the bottom of the article page. So, if you read an article on CNBC the bottom of it will say more from CNBC, powered by Taboola and more from around the web powered by Taboola.

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The advantage we've seen expanding from that sort of anchor is the opportunity to expand to other placements from the same publisher base. So, we went to a publisher, then we offered them an opportunity to replace traditional advertising placements such as in the middle of the page, [read the] article, homepages, section front. So, quite completely different high, visible, bigger placements.

And the opportunity for the publisher was to replace those traditional ad units with recommendation reels. So, think of, again, a combination of editorial recommendations with -- and this time bigger, higher impact advertising experiences. And that's something that got a lot of attention from the advertising community.

Last year, you know that we reported $90 million of video revenue and we were seeing that growing in the right direction globally. So, we are signing trading deals with agencies, we're seeing direct advertisers getting excited and the performance is also fantastic. In this case they measure us more in things like viewability, completion rates, things of that nature.

And again, what's to me most exciting is almost the unfair advantage we have in that bundle, which this is 1 plus 1 equals 3. We already have three-, four-, five-year relationships with these publishers, so they are so open minded to do more with us.

Operator

[Shyam Patel], SIG.

Shyam Patel - *CIG - Analyst*

Congrats on the strong results and the Connexity deal and going public. I had a couple questions. Now that you guys have entered the e-commerce space in a meaningful way, there were a couple other areas that you guys talked about during the stock process -- app downloads and video. I was just wondering how you are thinking about the roadmap there, if M&A makes sense and if there is anything near-term that would make sense there.

And then second question, Adam, you talked about this in your prepared remarks. But with the anything and anywhere kind of approach/strategy -- can you just talk about how you're thinking about the ramp and revenue there? Is that something that you're contemplating ramping next year or is that more of a multiyear initiative? Thank you, guys.

Adam Singolda - *Taboola.com Ltd. - Founder & CEO*

I will start. So, in general I think short-term will be quite focused and busy. We are so excited about the e-commerce opportunities. It is a huge TAM, it's a $35 billion TAM just in the US. Connexity is already one of the largest companies in the world doing that e-commerce for the open web in the media space.

So, if you think about just narrowing those two, bringing the merchants, 1,600 direct merchants onto our 0.5 billion active daily users a day across our global distribution of publishers, the synergies and opportunities are just so exciting to us as management. And specifically as it can contribute to things that make Taboola even more competitive as we continue to grow. So, driving yield growth, more super data sets, upselling our publishers.

I cannot wait to give a call to 9,000 of our publishers and tell them how about starting to launch a shopping section on your site. Everybody wants a Wirecutter, everybody wants a CNET and this is about to happen. So, I'm just waiting for that moment to happen. So, there's a lot of work ahead of us and exciting ones at our team. We are working on building a plan and all that we can do together. So, we are going to be quite busy and focused.

Saying that, I think the fact that our core market is growing so fast and it allows us to have exciting EBITDA margin and dollar amount, that definitely keeps our appetite going. And I think on that front you should expect us to continue to think about more in the e-commerce space we might be interested in doing, as well as other things such as gaming and app download to be discovered.

We've seen Facebook doing such a great job recommending games and things of that nature for people to download and discover. And I think that's going to be a great opportunity in mobile, especially since that's a big part of our business. So, that's something we're going to continue to consider organically and inorganically.

And then in general, so in the future I think we are seeing good revenue growth revenue growth from those things, I would say not only in topline growth but also in ex-TAC and margins. So, as you think about things such as video, which is in our Anything bucket, every dollar in the video space from our perspective is not only driving growth, it drives profitable growth even more because the yield is better.

So, you should think about these areas not only as growth opportunities but also making us stronger on a profit perspective. And then beyond those things, other areas that are interesting to us are things such as connected TV, which I speak about often, automobile. We are seeing great momentum in integrating in Android devices and becoming the Apple News for the rest of the world that are not iOS.

So, we have this huge index of content, which goes so much more than advertising space. And that we can put this to good use as we expand to other areas beyond the browser. So, all those things give us a lot of comfort and we are already seeing them paying in a good performance in revenue such as in video.

Operator

(Operator Instructions). Laura Martin, Needham.

Laura Martin - *Needham & Company - Analyst*

Good morning, great results you guys. So, could we talk about the business model, just following up on the prior question, Adam? So, you said you're going to call your clients and you're really excited to upsell them to launch a shopping center on their site. How do you get paid for that?

Adam Singolda - *Taboola.com Ltd. - Founder & CEO*

Good morning and thanks, Laura and everyone, for your questions. How do we get paid for that? So, Connexity has essentially two touch points with publishers today. One is a shopping section. It looks like an Amazon, but it's carrying the brand of the publisher. And we've all been on CNET, we've all been on the shopping sections that are an extension of the site. And there's so much more trust that goes alongside that environment and Connexity powers a lot of those shopping sections across sites across the web.

And the second thing they do is they integrate product recommendations alongside editorial content. And again, we've all seen this before. You read an article that talks about comparing devices and you buy one of them. So, that -- these are the two main touch points.

They have two revenue models or I would say two payment structures. The first one is CPC, which is most of what Taboola has today. And that means every time someone clicks on a product that's been recommended either on the shopping section, shopping side or alongside editorial content, it gets paid per click. That is more than 50% of the revenue.

And then the other types is CPA, which means they don't get paid per click, but they do such a good job recommending their product in the right time that that they believe it's going to convert on the other side on the merchant page. And they get paid when someone actually converts. That's less than 50% of the revenue.

So, then when revenue is being generated it's being then shared with the publisher, again, very similar to what Taboola does today, only they live in a parallel world which is e-commerce. So, that's why when we call our publishers and tell them let's do those two things Connexity can do for you, from their perspective it's going to fall exactly in line with what we do with them today.

We are going to expand the pie, we're going to grow the pie, generate more revenue this time from e-commerce and pay them a revenue share. So, what that means is the revenue per publisher has an opportunity to grow. So, it's like a vertical growth.

Laura Martin - *Needham & Company - Analyst*

So, what I hear you saying is that when you take Connexity out of the US into your international sites, you're going to keep the Connexity business model and not really integrate them into your more core business model? You are going to keep theirs on the e-commerce stuff.

Adam Singolda - *Taboola.com Ltd. - Founder & CEO*

Yes, I would say what we're going to do -- and I talked about some of that on the letter, but we're going to do all of those things. So, the easiest and immediate step would be to take all of the advertisers that work with Connexity now and have them participate in the marketplace of Taboola's existing recommendations and that should drive yield and already create some synergies and growth.

In addition to that, we will upsell publishers to do more than what Taboola is already doing with them and also have an e-commerce strategy for their site. If that makes sense.

Laura Martin - *Needham & Company - Analyst*

Perfectly. And then my second question, and I'll stop after this one, is I remember back in 2019 we brought a bunch of clients in house by guaranteeing them payments. I think those contracts are coming up. Are you going to have to re-guarantee those or are those contracts going to stay in house? And how are you thinking about guaranteed payments for clients going forward? What is your decision rule about when you guarantee revenue levels in your client base?

Stephen Walker - *Taboola.com Ltd. - CFO*

So, good question. Thanks, Laura. So, just as a reminder for everybody, in 2019, what Lara was referring to and asking about was we had a very unusual opportunity in 2019 to basically when a large number of very big brand name publishers all at once. We decided to go ahead and do that even though we knew that by doing that we be bringing on more supply than we were ready for a one time and we'd lose money on a number of those publishers up front.

And basically in retrospect we were able to see that it was about $[60] million that we ended up investing in that initiative. We did it because it was a good business opportunity. We knew that we could turn those publishers profitable over time and basically catch up with the demand, have the demand catch up with the supply.

We did that and by 2020 those publishers were breakeven to profitable. And you can see in our margins that we recovered and were back where we would've expected to be and, in fact, higher than we'd ever been before because those publishers were then driving growth in our network. So, that's what Lara was referring to.

To your more specific question about renewing those and whether or not we expect similar things going forward -- so, first of all, most -- I believe all those publishers are still with us. At least in one case I know of we've already renewed with them and extended them. As we renew we are almost always able to find ways to increase our margins and also make them more money. So, and that's a track record we have over a long period of time. So, as we are renewing those they're getting more profitable.

So, for instance, the one that I mentioned that I know has already renewed, the margin is higher and they are actually making more money with us now. So, they are happy and we are happy. And that's pretty typical for us -- as we renew publishers we usually are able to find ways to make them more money and improve our margins at the same time.

So, that's what's typically happening. I'll also say -- I think part of your question was should we expect any sort of thing -- event again. We don't see any sort of similar kind of alignment of the stars where there is a huge amount of supply coming out that we will extend ourselves and cause a decrease in margins. We don't see that at this point. So, we don't expect another event like that going forward.

Operator

John Blackledge, Cowen.

John Blackledge - *Cowen and company - Analyst*

Two questions, I hope you can hear me okay, it's been a little choppy. On the Connexity deal, once it's closed how long would it take to integrate Connexity's offering to your current set of publishers?

And then second on M&A, how should we think about further M&A in the near and intermediate term, just given the significance of the Connexity deal? Thanks.

Stephen Walker - *Taboola.com Ltd. - CFO*

I would say on the timing of how quickly we can integrate Connexity, so we view the synergies as basically coming in two steps. So, there's the, what I would call, low hanging fruit things that we can do very quickly. So for instance, bringing their demand to our supply, as Adam referred to, basically getting their 1600-plus good brand-name merchants spending in our supply area is something we can do fairly quickly. Obviously we will get better at it over time, but we can do it fairly immediately.

Likewise upselling our publishers to use their services as they are currently set up to do, that should be a fairly quick thing to do in the geos where they are set up, like US, UK, Germany. We can start that pretty immediately.

I would say soon thereafter we can also start rolling them out geographically because they are 75% US and most of the rest of their business is in Germany and the UK. We can bring them to France and Italy and Japan and all of the -- Australia -- all the other markets where we are very strong and have a good presence. We can do that pretty quickly.

They need to do a little bit of work to get the demand side there, but they know how to do it. It's a fairly fast thing so I would call those the medium-term. And then the longer term opportunity on the synergies which we're very excited about is basically then to start using some of our technology to help them improve what they do and vice versa. So, kind of integrating the tech stacks. That one will take a bit longer. We don't have a specific timeframe on that yet but that will happen over time.

But I think we're pretty excited that a lot of the synergies and the dollar value of the synergies can start fairly quickly. Just to give you a sense in our model, we didn't build in huge synergies in 2022; we built in some of those quick hit ones. But we expect them to really start to kick in in a stronger way in 2023 and forward. So, that's in terms of the timing of the synergies.

In terms of -- I think your second question was more around acquisitions and M&A. So, I think Adam referred to this. Right now our mentality is we need to obviously make this one work and we are going to be heads down to make sure we make this one work. So, we don't anticipate any other large M&A in the near term. I never want to say never because if something comes along opportunistically that we think is a great opportunity, we are going to need to look at it.

But our if you were to ask us today are you going to do another major acquisition in the near term, we'd say no because we need to get this one working quick -- working well. So, our immediate focus is making this one work. We'll obviously keep our eyes open. We have ongoing dialogues with multiple companies, but unless something is a -- we just can't afford to pass on it -- we're going to focus on making Connexity work right now.

John Blackledge - *Cowen and company - Analyst*

Thank you.

Operator

Thank you and that concludes our question-and-answer session and I would like to turn the conference back over to Adam Singolda for any further remarks.

Adam Singolda - *Taboola.com Ltd. - Founder & CEO*

Thank you. So, I just want to say this is a very special moment in time for us at Taboola and I feel like our community is around us. We just went public 1.5 months ago. It was such an amazing day. My mom flew in. I couldn't believe I started a business from their house 14 years ago. It was emotional and exciting and incredible. We acquired a few weeks afterwards Connexity to bring the power of Amazon to the open web. As we mentioned, the future of the open Internet will be driven by e-commerce.

We are beating and raising our performance and expectations. That's exciting. It's a huge $60-billion-plus market that is growing fast, and I feel we have so many meaningful advantages working in our favor, starting with the Company's culture and execution of the leadership as well as assets we've built over the years in technology and relationships as we look to build the largest open web company in the world, Google for search, Facebook social and Taboola open web.

On a personal note, I really like being a public company. I want to thank all of you for asking us great questions, interacting with us. It makes us better and we look forward to continuing that with everyone. So, thank you.

Operator

This concludes today's conference call. Thank you for participating. You may now disconnect. Everyone have a great day.